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REPORT BY THE U.S.

# General Accounting Office

ORIGINAL

# Actions Needed To Enhance The Credibility Of Senior Executive Service Performance Award Programs

The Senior Executive Service--the cornerstone of civil service reform--went into effect in July 1979 and with it a system of rank and performance awards. The Senior Executive Service compensation system was designed to attract and retain highly competent executives and to insure that compensation, retention, and tenure are contingent upon executive success, measured on the basis of individual and organizational performance. Rank and performance awards were designed to reward outstanding accomplishments and performance and to encourage excellence and higher productivity.

But the Congress, senior executives, and the press have questioned the credibility and integrity of the performance awards process--a vital feature of the compensation system. To help insure that the awards process operates as intended and contributes to the success of the Senior Executive Service, the Office of Personnel Management should take actions to enhance the integrity, credibility, and equity of agencies' performance award programs.

FPCD-81-65
SEPTEMBER 30, 1981

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FEDERAL PERSONNEL AND
COMPENSATION DIVISION

B-196181

The Honorable Donald J. Devine
Director, Office of Personnel
Management

Dear Dr. Devine:

This letter summarizes the results of our review of Senior Executive Service (SES) performance and rank awards paid as of June 1981. It reiterates and expands on matters discussed in our August 15, 1980, report "First Look at Senior Executive Service Performance Awards" (FPCD-80-74) and April 1981 testimony before the Subcommittee on Civil Service, House Committee on Post Office and Civil Service, and the Subcommittee on Civil Service, Post Office, and General Services, Senate Committee on Governmental Affairs.

The SES, established by title IV of the Civil Service Reform Act of 1978 (Public Law 95-454), went into effect on July 13, 1979, and with it a system of rank and performance awards designed to reward outstanding accomplishments and performance and to encourage excellence and higher productivity. But the credibility and integrity of the performance awards process--a vital feature of the SES--has been questioned. To help insure that the awards process operates as intended and contributes to the success of SES, criticisms of agencies' performance award programs need immediate attention.

As emphasized in our June 8, 1981, letter to the President and key congressional officials (see app. IX), executive pay compression demotivates senior executives and also adversely affects the administration of SES performance awards. It creates incentives for agencies to use performance awards as a secondary compensation system to recognize various factors--such as job difficulty, degree of responsibility, salary, and service history--which customarily are,

and should be, reflected in basic salary level differentials. To help SES performance award programs to operate as intended, we have urged the Congress to allow top Federal officials to (1) begin receiving the pay increases which were due them in October 1979 and October 1980 (16.8%) and (2) receive any pay increases provided by law in October 1981 and in subsequent years.

OBJECTIVES, SCOPE, AND METHODOLOGY

The House-Senate conferees on the Fiscal Year 1980 Supplemental Appropriations Act directed our office to thoroughly study SES awards. Accordingly, the objectives of our review were to (1) gather statistical data on performance and rank awards to determine if agencies are complying with the law and with OPM guidance and to identify any trends in that data, (2) assess the validity and effectiveness of methods and criteria agencies use in making award payments, (3) examine the composition and functioning of agencies' performance review boards, and (4) identify any changes that may be necessary to enhance the award processes. Our review covered the period October 27, 1980, to June 30, 1981.

We reviewed OPM's policies, procedures, guidance, and assistance to Federal agencies and discussed them with responsible OPM officials; analyzed the statistics from OPM's computerized SES data collection system; and evaluated the performance award processes and discussed them with officials, including the Performance Review Board (PRB) Chairmen and members, at seven Federal agencies-the Department of State; the Department of Energy; the Department of Agriculture, the Department of the Navy; the U.S. Customs Service and the Internal Revenue Service, Department of the Treasury; and the U.S. International Trade Commission. We chose these seven agencies because they represented what we considered a good cross section of Federal agencies' approaches toward performance appraisal and award systems.

In addition, we examined title IV of the Reform Act and reviewed the effects of congressional actions limiting senior executive performance awards. We also analyzed questionnaire results from surveys of senior executives conducted by the Merit Systems Protection Board and the Federal Executive Institute Alumni Association.

Our work was focused on agency systems; we did not review individual award justifications. (Apps. II through VIII describe the performance award systems of the seven agencies we reviewed.)

## OBSERVATIONS AND CONCLUSIONS

The agencies we reviewed generally appeared to be making reasonable efforts to administer and refine workable performance award systems. We believe that is particularly noteworthy in view of executive pay compression and congressional/administrative actions limiting the number and size of performance awards that could be granted.

Although we did not find any evidence of intentional abuse or mismanagement of SES award programs, we identified several aspects of agencies' performance award determination processes that, understandably, have raised questions about their integrity and credibility.

The Congress, senior executives, and the press have criticized the administration of SES awards. One of the major criticisms has been that upper level executives have received disproportionately large shares of awards. A related criticism has been that factors other than performance have been used to determine performance award recipients. Another criticism has been that PRB members, who review and make recommendations on ratings and performance awards, have granted themselves awards. Still another criticism has been that agencies consistently have granted the maximum number of allowable performance awards. In addition, we identified two other issues that need attention. One is the desirability of and purpose served by including reemployed annuitants in the SES, thereby making them eligible for awards. Also, the method agencies use to compute the maximum allowable number of performance awards that can be paid needs clarification. (These criticisms and issues are discussed in app. I.)

If SES performance awards are to serve their intended purposes of rewarding outstanding performance and encouraging excellence and higher productivity, it is essential that they be viewed more favorably, particularly by the senior executives themselves. We therefore believe that these criticisms and issues need to be addressed.

To help remove even the appearance of impropriety or favoritism and hopefully alleviate much of the criticism of agencies' performance award programs, OPM could take several administrative actions which would enhance program integrity, credibility, and equity.

RECOMMENDATIONS TO THE DIRECTOR, OPM

We recommend that the Director, OPM, assume responsibility for approving agencies' PRB policies, procedures, and criteria for performance rating and award recommendations as part of the agencies' performance appraisal systems (required by 5 U.S.C. 4312). Such approval should insure that agencies:

--Use performance, not other factors, as the basis for determining performance ratings and to identify SES members deserving of awards.

--Structure their PRBs so that members cannot recommend themselves for awards.

We recommend also that the Director, OPM:

--Reconsider the award eligibility of reemployed annuitants.

--Clarify the method agencies should use to compute the maximum allowable number of awards that can be paid.

--Study and report to the Congress on the optimal number and size of performance awards that should be granted to achieve the objectives for which they are intended.

--Develop a strong monitoring effort through OPM's data collection system and compliance visits to agencies to help insure that valid statistics on the entire performance rating and award system exist and that performance award systems are creditable and equitable.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations. This written statement must be submitted to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report. A written statement must also be submitted to the House and Senate Committees on Appropriations with an agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Chairman, House Committee on Post Office and Civil Service; the Chairmen, Senate

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Committee on Governmental Affairs and House and Senate Committees on Appropriations; and to other interested persons upon request.

Sincerely yours,

Clifford I. Gould
Director

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### ABBREVIATIONS

| | |
|---|---|
| DOE | Department of Energy |
| GAO | General Accounting Office |
| IRS | Internal Revenue Service |
| ITC | U.S. International Trade Commission |
| MSPB | Merit Systems Protection Board |
| NEB | Navy Executive Board |
| OPM | Office of Personnel Management |
| PRB | Performance Review Board |
| SES | Senior Executive Service |

## CRITICISMS THAT AFFECT THE INTEGRITY AND CREDIBILITY OF SES PERFORMANCE AWARD PROGRAMS

### BACKGROUND

SES, established by title IV of the Civil Service Reform Act of 1978 (Public Law 95-454), went into effect on July 13, 1979, and with it a system of rank and performance awards. SES has been called the "cornerstone" of civil service reform. It was created to improve the efficiency and effectiveness of the Federal Government. Those executives electing to join SES agreed to accept reassignments to areas where they were needed and give up some of the job security available to other Federal employees. In return, SES members became eligible for Presidential ranks and performance awards which they could earn on the basis of their performance.

The SES compensation system was designed to attract and retain highly competent executives and insure that compensation, retention, and tenure are contingent on executive success and measured on the basis of individual and organizational performance. To encourage and reward excellence, the Reform Act provided that up to 50 percent of SES career members with fully successful performance ratings could receive lump-sum performance awards of up to 20 percent of their basic salary. In addition, a career executive could receive the rank of Meritorious Executive or the rank of Distinguished Executive for sustained accomplishments and sustained extraordinary accomplishments, respectively. These executive ranks carry one-time lump-sum payments of up to $10,000 and $20,000, respectively. Total dollar compensation (basic pay plus rank and performance awards) for SES executives cannot however, in any 1 year, exceed the salary rate payable for Executive Level I. Noncareer SES appointees, who can comprise up to 10 percent of the SES, are not eligible for performance awards or executive ranks. As of June 20, 1981, 48 agencies had paid performance awards totaling about $7.7 million to 1,354 executives. Rank awards totaling about $3 million were paid to 255 executives.

In October 1979, OPM provided agencies with guidance on the payment of performance awards. This guidance reiterated the limitations and other provisions of the Reform Act and provided suggestions on establishing and administering SES performance award payment programs.

The first awards under this system were paid in 1980 by the Small Business Administration, the National Aeronautics and Space Administration, and the Merit Systems Protection Board (MSPB). Concerned about the number and amount of these awards, the Congress, in a supplemental appropriations act, reduced the number

of SES members that could receive awards from 50 percent to 25 percent. On July 21, 1980, OPM further limited performance awards (unless OPM concurrence was obtained) to 20 percent of the eligible career executives. This limitation was in response to strong congressional concern that the 25-percent limit be viewed as a ceiling, not the norm.

OPM also limited the size of performance awards--no more than 5 percent of them could be 20 percent of salary. In total, no more than 10 percent could be 17 to 20 percent of salary, and in total, no more than 25 percent could be 12 to 20 percent of salary. OPM also suggested that although career executives are eligible for both performance and rank awards, agencies should generally avoid giving multiple awards to an individual SES member in any one year.

## CRITICISMS OF PERFORMANCE AWARD PROGRAMS THAT NEED TO BE ADDRESSED

The Congress, the press, and senior executives have criticized the administration of performance awards. To enhance the credibility, integrity, and equity of the performance awards programs, the following criticisms and issues need to be addressed:

--Upper level executives are receiving a disproportionately large share of all awards.

--Factors other than performance are being used to determine award recipients.

--A high percentage of performance review board members who oversee the awards process are receiving awards.

--Most agencies are granting the maximum allowable number of awards.

--The method of computing maximum allowable number of awards needs to be clarified.

--Reemployed annuitants are eligible for and have received awards.

To illustrate the need to address these, the results of a survey of senior executives' attitudes about the SES by MSPB show that many executives question the equity and integrity of performance award programs.

The MSPB study 1/ on SES concluded:

"Many executives see favoritism in the way that available bonuses are awarded. One-third of executives believe that bonuses do not go to the best performers. One-half see bonuses going disproportionately to executives at the top of the agency. An almost equal percentage (45%) report one or more instances in the last twelve months where they believe bonuses were given to 'management favorites' without sufficient basis in actual performance."

An April 1981 questionnaire administered by the Federal Executive Institute Alumni Association revealed similar responses. Only 35 percent of the more than 250 senior executives completing the questionnaire believed that SES bonus awards in their agency were made in a fair manner; 65 percent believed they were unfair. The Alumni Association questionnaire also addressed the issue of restrictions on the number of senior executives that could receive performance awards. Executives' responses were as follows: 15 percent believed the bonus system should continue if it remains under the current restriction of 20 percent of eligible executives; 54 percent believed the bonus system should continue only if widened to 50 percent of authorized positions as provided by law; 24 percent believed that the bonus system should be wholly discontinued and 7 percent believed it should be changed in some other way.

Large proportion of awards going to upper level executives

Six levels of pay were established for SES--ES-1 (lowest) through ES-6 (highest)--but, because of pay compression, virtually all Federal executives currently receive the same rate of pay despite the differences in their responsibility and authority. Nearly 90 percent of those entering SES at its inception were at ES-3 through ES-6, with the majority at the ES-4 level. According to OPM data, however, awards granted Government-wide from inception through May 31, 1981, were distributed among the six levels as follows:

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1/MSPB's Office of Merit Systems Review and Studies distributed questionnaires to about 1,500 randomly selected SES members in November 1980. Responses from nearly 1,000 respondents which closely paralleled the composition of the total SES were received. These first findings revealed the attitudes and experiences of SES members concerning the performance appraisal system and bonus system.

--Among level 5 and 6 rated career executives, 70 percent received performance and rank awards. Executives at these two levels comprised 15 percent of the rated career SES population, and they received 30 percent of the awards given.

--Among level 4 rated career executives, 27 percent received performance and rank awards. Level 4 executives comprised 66 percent of the rated career SES population, and they received 60 percent of the awards given.

--Among level 1 through 3 rated career executives, 15 percent received performance and rank awards. Executives at these 3 levels comprised 19 percent of the rated career SES population, and they received 10 percent of the awards given.

The award distributions at the seven agencies we reviewed also were similarly skewed to the higher levels, however, no senior executives received both awards.

Factors other than performance used to determine award recipients

We believe that upper level executives received a larger share of the awards because agencies used factors other than performance to determine award recipients. On the basis of our review of awards at the seven agencies, the following factors were used in addition to performance appraisal to determine who would receive awards:

--Job importance, complexity, and difficulty.

--Degree of risk and responsibility.

--Organizational commitment (willing to move, serve on organizational task forces, participate as an instructor in training programs).

--The attitude that no subordinate should receive greater compensation than his/her superior.

For the most part, these are factors customarily used to set compensation levels and are usually reflected in basic salary differences. Their use in deciding who receives performance awards gives an advantage to upper level executives. In view of the salary compression brought about by the executive pay problem and the inherent difficulty in ignoring these factors when evaluating employees, it is not surprising they are affecting the distribution of performance and rank awards.

Most agencies' performance rating systems established three fully successful performance levels. Although terminology differed, reporting to OPM was on a standardized rating scale. Level 5 was the top performance rating (outstanding; exceeded all performance standards); 4 indicated other fully successful (highly successful; exceeded most performance standards); and 3 indicated the first (lowest) fully successful level (fully successful; met all performance standards). The OPM data through May 31, 1981, for 13 agencies showed that 514 executives with a level 5 rating did not receive an award, while 246 executives with lower ratings did. This suggests that factors other than performance were used to determine award recipients.

Agencies that Gave Awards to Executives Performing at A Lower Performance Level Than Executives Who Did Not Receive Awards (Inception through May 31, 1981)

| | Performance level | | | | | |
|---|---|---|---|---|---|---|
| | 5 | | 4 | | 3 | |
| Agency | Received bonuses | Did not receive bonuses | Received bonuses | Did not receive bonuses | Received bonuses | Did not receive bonuses |
| Office of Management and Budget | 9 | 16 | 2 | 35 | | |
| U.S. Arms Control and Disarmament Agency | 15 | 27 | 3 | 50 | | |
| Department of Agriculture | 5 | 2 | 50 | 59 | 10 | 109 |
| Office of the Secretary of Defense | 50 | 96 | 2 | 76 | | |
| Department of Energy | 36 | 66 | 72 | 136 | 1 | 148 |
| Department of Health and Human Services | 67 | 119 | 29 | 182 | | |
| Department of Labor | 22 | 7 | 10 | 61 | | |
| Department of Transportation | 26 | 43 | 18 | 102 | 1 | 38 |
| Federal Emergency Management Agency | 9 | 10 | 1 | 11 | | |
| General Services Administration | 8 | 12 | 2 | 36 | | |
| Office of Personnel Management | 8 | 6 | 7 | 32 | | |
| Small Business Administration | | | 7 | 1 | 8 | 12 |
| Veterans Administration | 9 | 22 | 21 | 43 | | |
| Department of the Navy | 31 | 88 | 2 | 74 | — | — |
| Total | 295 | 514 | 226 | 898 | 20 | 307 |

Agency officials told us that, in some cases, factors other than the performance appraisal, such as difficulty of assignment or size of work force managed, were considered in their decisions on award recipients, but at two agencies (the Internal Revenue Service (IRS) and the Department of Agriculture) the PRB members systematically used factors in addition to the performance appraisal to determine award recipients. The PRB at IRS used the following factors to rank all those nominated for performance awards:

--Difficulty of expectations.

--Level of accomplishments.

--Position difficulty.

--Organizational commitment.

We were not able to clearly demonstrate that factors other than performance were more important in determining who received awards at IRS because the worksheets prepared by the PRB members were not available for our review. Further, the IRS system has only one rating level for all fully successful executives, so no performance differentiation could be made.

Agriculture used two factors to place executives into a hierarchical matrix of award eligibility--the summary performance rating and a position coefficient. The position coefficient is based on a one-page narrative statement addressing four difficulty/risk factors that affect an executive's position: (1) integration of internal and external program/policy issues, (2) organizational representation and liaison, (3) direction and guidance of programs, projects, or policy development, and (4) resource acquisition and administration.

Such systematic use of factors other than performance has the advantage of insuring that all PRB members are considering the same factors in their deliberations on award recipients. However, by using these factors in the awards process the value of performance is diminished and the basis for granting awards may be contrary to the intent of the Reform Act. The Reform Act states that SES compensation (as well as retention and tenure) are contingent on executive success measured on the basis of individual and organizational performance. OPM did not prescribe more specific guidelines or approve PRB processes as part of its approval of performance appraisal systems.

Awards to PRB members

A frequent criticism of the awards process has been that PRB members--those who review and make recommendations on ratings and

performance awards--are granting themselves awards. OPM's statistics on 19 agencies, covering the period from program inception through May 31, 1981, showed that of 540 eligible PRB members, 224 (41%) received award recognition--167 performance awards and 57 rank awards.

At the seven agencies we visited, we found that 61 percent of the PRB members had received either a rank or performance award. The statistics for the seven agencies, from program inception through May 31, 1981, were as follows:

| Agency | Number career eligible on PRB | Performance awards | | Rank awards | | Percent receiving either performance or rank awards |
|---|---|---|---|---|---|---|
| | | No. | Percent | No. | Percent | |
| IRS | 5 | 2 | 40 | 2 | 40 | 80 |
| State | 8 | 2 | 25 | 1 | 13 | 38 |
| Energy | 5 | 2 | 40 | 3 | 60 | 100 |
| Customs | 8 | 4 | 50 | 2 | 25 | 75 |
| ITC | 5 | 2 | 40 | 0 | 0 | 40 |
| Agriculture | 45 | 16 | 35 | 10 | 22 | 57 |
| Navy | 31 | 14 | 45 | 6 | 19 | 65 |

Agency officials at the above agencies told us that top performers were selected to serve on PRBs to help instill confidence in the process. Thus, they felt it was not unusual for many PRB members to receive awards.

The Presidential rank awards were decided on by panels of executives from inside and outside the Government so PRB members were not in a position to approve rank awards for themselves. In our visits to agencies we found rank award recipients were ruled ineligible to receive performance awards. Further, at the Department of Energy (DOE), three PRB members were selected, in part, to serve because they had received rank awards and therefore were ineligible for performance award consideration.

All seven agencies had procedures that precluded PRB members from actually considering themselves or any person they had rated for performance awards. Some procedures were more formal than others. At IRS, for example, the Treasury Department's PRB reviewed the performance of all members on the IRS PRB. Agriculture's PRBs were arranged so that no members reviewed their own ratings. Other agencies' systems required PRB members whose performance was being evaluated to leave the room during such deliberations.

Therefore, while the statistics reveal that PRB members are receiving a high percentage of awards, we have no indication that these individuals did not deserve them. IRS and Agriculture

structured their award processes to remove even the appearance of favoritism in granting performance awards to PRB members. This enhanced the credibility of their awards.

Most agencies awarded maximum number of allowable performance awards

After the first SES awards were paid in 1980 by the Small Business Administration, the National Aeronautics and Space Administration, and the MSPB, the Congress reduced the legislative limit on performance awards to 25 percent. Because of congressional concern that this limit be viewed as a ceiling and not the norm, OPM issued stricter guidance limiting the number of performance awards. OPM's guidelines limited these awards to 20 percent of career eligible executives. (The legislation had limited them to 25% of total SES positions.)

Many agencies exceeded OPM's 20-percent limit. We could not determine if all agencies which exceeded the limit had first received the required approval from OPM to do so because OPM gave some approvals orally and did not document its consent for the record. All seven agencies we visited, except the U.S. International Trade Commission (ITC), received OPM's approval to exceed the 20-percent limit. The State Department gave performance awards to 8 of its 37 executives (21.6%) rather than 7 which would have complied with OPM guidelines; IRS gave awards to 49 of 223 executives (21.4%); Customs gave awards to 8 of 36 (22.2%); Department of Agriculture gave awards to 65 of 311 (20.9%); the Department of the Navy gave awards to 70 of 326 (21.5%); and the Department of Energy gave awards to 104 of 507 (20.5%). ITC gave awards to 2 of 5 executives (40%). The legality of the number of ITC's awards is presently with the GAO's General Counsel for resolution.

Question of base for calculating 20-percent limit

To be eligible for a performance award, a career executive must have received a rating of not less than "fully successful" in the most recent performance appraisal. During the first SES appraisal period, however, some executives had not served enough time in SES to receive a performance rating. If eligibility had been restricted to 20 percent of those who had received a rating, or were otherwise considered truly eligible for an award, fewer awards could have been made. At Agriculture, those serving in the first-year probationary period were ruled ineligible for awards, but they were counted as part of the base upon which the 20-percent limit was calculated. At that time, Agriculture had 59 senior executives in its probationary status. If the 59 had not been included in the base, 12 fewer awards could have

been made. At the Department of Energy, a base of 507 was used, but only 472 were appraised. The allowable number of awards at Energy would thereby have been reduced by 7.

OPM officials told us they were reluctant to reduce the base upon which the percentages were calculated because the award limitation had been reduced so significantly from the time that SES had been created.

Reemployed annuitants

OPM statistics showed that of 134 reemployed annuitants appraised as of March 1981, 42 (31%) received performance awards, 16 (12%) received Presidential rank awards, and 4 (3%) received incentive awards. We question whether reemployed annuitants are the type of executives the SES was designed to attract and retain, and therefore whether they should be eligible for SES Presidential rank and performance awards.

OTHER OBSERVATIONS

In previous reports, 1/ we stated that SES's success depends on the granting of annual pay adjustments to these executives and also on the granting of performance awards within established guidelines. Without these actions, the success of SES could be undermined and the objectives of greater excellence and improved program management envisioned by the Reform Act could be seriously impaired. The potential returns this country could receive from executives' improved performance are overwhelming. We recommended in these reports that the Congress improve the pay-setting process for Federal executives by

--allowing the annual adjustments for executives under Public Law 94-82 to take effect,

--discontinuing the practice of linking congressional and Executive Level II salaries, and

--allowing SES and performance and rank awards to remain in effect without further restrictions on payments.

Pay adjustments could have a dramatic impact on the objectivity and equity of the awards process by allowing more emphasis on performance as a determining factor in performance award decisions. (See app. IX for a complete discussion of the relationship between performance awards and executive pay.)

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1/"First Step Completed in Conversion to Senior Executive Service" (FPCD-80-54, July 11, 1980) and "Federal Executive Pay Compression Worsens" (FPCD-80-72, July 31, 1980).

## INTERNAL REVENUE SERVICE

The IRS paid performance awards in October 1980 to 49 executives, or 21.9 percent of its 223 career executives.

### PERFORMANCE APPRAISAL PROCEDURES

IRS established its first SES performance objectives in July 1979. Objectives and expectations were grouped into three critical elements: accomplishments, development of subordinates, and equal employment opportunity effectiveness. IRS defined "critical element" as a job element of sufficient importance that performance below the minimum standard established by management requires remedial action and may be the basis for demoting or removing the employee. These job-related performance objectives and expectations were mutually set by the executive and his/her immediate supervisor. All objectives and expectations were reviewed by the PRB. Many were returned with suggestions for improvements and revised.

The first SES performance appraisals were completed in July 1980, and a summary rating recommendation was made by the immediate supervisor. The three possible summary ratings were "fully successful," "minimally satisfactory", and "unsatisfactory."

An appropriate reviewing official (in most cases an Assistant Commissioner or Regional Commissioner) reviewed the performance appraisals and summary ratings and made recommendations to the PRB as to whether the executive should be considered for an award. The award recommendation was made by checking the appropriate box on the performance appraisal as follows:

"(a) recommended award amount be within the highest 1/4 of the awards given for the Service.

"(b) recommended award amount be within the second 1/4 of the awards given for the Service.

"(c) recommended award amount be within the third 1/4 of the awards given for the Service.

"(d) recommended award amount be within the lowest 1/4 of the awards given for the Service."

Only executives rated fully successful were considered eligible for a performance award. Only one SES executive was rated minimally satisfactory; all other executives were rated fully successful and, thus, were eligible for awards based on their performance.

PRB COMPOSITION

IRS utilized three different PRBs in reviewing SES executives' appraisals.

--The appraisals of the Deputy Commissioner, Assistant Commissioners, Regional Commissioners, Assistants to the Commissioner, and the Assistant to the Deputy Commissioner were reviewed by the Department of the Treasury's PRB.

--The appraisals of all inspection executives except the Assistant Commissioner (Inspection) were reviewed by a special PRB composed of the Deputy Commissioner, IRS; the Inspector General, Department of Treasury; and the Deputy Chief Counsel, IRS. This PRB was created so that no executives who may be audited or investigated by inspection executives would be responsible for reviewing inspection executives' appraisals.

--All other executives in IRS had their performance appraisals reviewed by IRS PRB consisting of the Deputy Commissioner, two Regional Commissioners, and two Assistant Commissioners.

Of the five members of this third PRB, two received rank awards and two received performance awards.

PERFORMANCE AWARD PROCEDURES

IRS at that time had 223 SES executives, and all were career appointees. Of these, 216 had their performance rated.

The PRB first reviewed the performance appraisals of those executives who were not recommended for performance awards. During this process, each PRB member considered whether any of these executives should be added to the list of those recommended for awards on the basis of organizationwide service not considered by the executive's supervisor. The full PRB then discussed any disagreements with the recommended overall rating and decided to add three executives to the recommendation list.

The PRB then reviewed the appraisals of the executives on the recommendation list. PRB members did not review the performance appraisals of their own subordinates. Each appraisal was independently reviewed by three PRB members and evaluated against the following criteria:

1. Difficulty of expectations--based upon an analysis of the expectations as stated in the contracts.

2. Level of accomplishment--based upon a review of performance against expectations.

3. Position difficulty--based upon an understanding and agreement of the complexity and difficulty of the job assignment.

4. Organizational commitment--based upon the executive's participation in assignments which are necessary and beneficial to the functioning of the Service, such as serving as instructor, serving on a task force or on an important detail, moving to offices or organizations where the executive's skills and abilities are needed and can be put to maximum use, etc.

Each executive was rated against each of the above criteria on a scale of 1 to 5, with 5 being the highest. Each of the three reviewers could assign up to 20 points. Thus, each recommended executive could receive a maximum of 60 points.

After all recommended executives were rated against the four criteria, they were put in rank order on the basis of their total number of points. The final scores ranged from 49 points down to 22.

The IRS PRB combined the results of its PRB and the other PRBs into one ranking of all executives. The executives who were nominated for Presidential ranks but did not receive them were put at the top of the list for performance awards according to Department of Treasury guidelines. Executives with the same score were then ranked by all five PRB members and put in rank order with their group. This group ranking was to determine who within the group would get an award and who would be dropped from the group when the PRB knew how many awards IRS would be allotted. When Treasury notified IRS that IRS could make 49 awards, the cutoff was made at 33 points.

The Chairman of the PRB then submitted the recommendations to the Commissioner, IRS. Award recommendations were approved by the Commissioner and the Secretary of Treasury, and the 49 performance awards were paid in October 1980.

The ratio of field to headquarters awards was 57 percent to executives in field offices and 43 percent to executives in the national office.

APPENDIX II

## Summary Statistics for IRS

| | |
|---|---|
| Total authorized SES positions | 228 |
| Career executives eligible for awards according to OPM's eligibility criteria | 223 |
| Career executives rated | 216 |
| Number of performance awards | 49 |
| Percentage of performance award amounts: | |
| at 20 percent of salary | 4% |
| from 17 to 20 percent of salary | 10% |
| from 12 to 20 percent of salary | 24% |
| less than 12 percent of salary | 76% |
| Amount of awards: | |
| Ranks (6) | $ 80,000 |
| Performance awards | $259,000 |
| Number of PRB members receiving awards (4 of 5): | |
| Distinguished Rank | 1 |
| Meritorious Rank | 1 |
| Performance awards | 2 |

## Awards by ES Level

| ES level | Number of career executives | Percentage of agency SES population | Number and percentage receiving performance awards | | Number and percentage receiving rank awards | | Percentage receiving performance or rank awards |
|---|---|---|---|---|---|---|---|
| | | | Number | Percent | Number | Percent | |
| ES-6 | 1 | 0.4 | 0 | 0 | 1 | 100 | 100 |
| 5 | 2 | 1 | 1 | 50 | 1 | 50 | 100 |
| 4 | 160 | 72 | 45 | 28 | 4 | 3 | 31 |
| 3 | 30 | 13 | 2 | 7 | 0 | 0 | 7 |
| 2 | 18 | 8 | 0 | 0 | 0 | 0 | 0 |
| 1 | 12 | 5 | 1 | 8 | 0 | 0 | 8 |
| | 223 | a/99.4 | 49 | 21.9 | 6 | | |

a/Does not total 100 percent due to rounding.

## DEPARTMENT OF ENERGY

DOE paid performance awards in September 1980 to 104 executives, or 20.5 percent of its 507 career executives.

### PERFORMANCE APPRAISAL PROCEDURES

DOE established its performance appraisal system in September 1979. Its first SES performance objectives were set in October 1979. Performance contracts each contained two critical elements: achievement of organizational goals and managerial effectiveness. Two required subelements under the critical element of managerial effectiveness were equal employment opportunity effectiveness and development of subordinates.

DOE defined "critical element" as any position requirement which, if not met, outweighs fully successful or better performance in all other elements of the position and results in an unsatisfactory performance rating. DOE defined "subelement" as a position requirement within a critical element used to establish specific performance objectives which when evaluated along with other subelements reflect the degree of success in meeting the requirement of the critical element.

These job-related performance objectives were mutually agreed upon by the executive and his/her immediate supervisor. All performance objectives were reviewed for consistency by the Assistant Secretary or equivalent for the area in question. No central record was maintained on how many of the performance contracts were returned for revision by executives and their supervisors.

The first appraisal period was completed on August 15, 1980. The original completion date had been set for September 30, 1980, but was moved up so that award payouts could be made in fiscal year 1980. The executive's supervisor then reviewed the executive's performance and gave a summary rating at one of five possible levels: exceptional, highly successful, fully successful, minimally satisfactory, and unsatisfactory.

An appropriate reviewing official, in most cases an Assistant Secretary or equivalent, reviewed the performance appraisal and summary rating and either concurred in or changed the rating. The immediate supervisor was the person responsible for making the initial recommendation for a performance award, with the person at the Assistant Secretary level either concurring or recommending a change to the PRB. In some cases, the person at the Assistant Secretary level was the immediate supervisor, and there was no review beyond that level. Executives' performance ratings had to be at least "fully successful" for them

to be recommended for an award. In addition, performance achievements and accomplishments of executives with "fully successful" ratings had to "closely approximate a 'highly successful' rating" for them to be recommended for an award.

DOE used the following guidelines for supervisors recommending award amounts:

1. Awards of 20 percent limited to executives with "exceptional" ratings.

2. Awards up to 15 percent limited to executives with a rating of "highly successful" or higher.

3. Awards up to 10 percent can be paid to executives with "fully successful" ratings.

PRB COMPOSITION

DOE had only one PRB, consisting of five members, to review performance award recommendations. All five PRB members were drawn from the career ranks of DOE's SES corps.

Criteria for selecting PRB members follow:

1. The number of headquarters and field members should be balanced.

2. Presidential Rank recipients should be represented because of their demonstrated excellence and because they were ineligible for bonuses.

3. PRB members should hold top positions within DOE.

4. PRB members should be recognized as DOE's top performers.

PRB membership was not permanent but was an ad hoc assignment to last only for the appraisal review period. The chairperson of this past year's PRB was DOE's Director of Personnel. Of the five PRB members, three received rank awards and two received performance awards.

PERFORMANCE AWARD PROCEDURES

Two PRB sessions were held. The first in September 1980 was to review the performance ratings of 133 SES members who were recommended for an award by their rating official. Of these, the PRB approved 104 for performance awards. Another PRB session was held in October 1980 to confirm the ratings of those executives not recommended for a performance award.

In reviewing the appraisals of each executive, the PRB looked at whether a case had been made on paper by the rating official. The PRB looked at whether recommendations for awards and summary ratings were in line with the results that had been achieved. The PRB examined the performance appraisal for its consistency throughout. PRB decisions were based on individual performance as were the performance contracts.

The Executive Personnel Board is responsible for determining the policy and procedures for DOE's performance appraisal and award system and serves as the approving authority for performance ratings and performance award recommendations. It also reviews nominations for rank awards and submits final rank nominations to the Secretary for approval. The Deputy Secretary is Chairman of the Board.

The Board gave a final review to all recommendations for awards, all ratings of highly successful and exceptional, as well as those below fully successful. In some of these cases, the Board upgraded the rating or award recommended by the PRB. In all of these cases, the EPB was the final approving authority.

APPENDIX III

## Summary Statistics for DOE

| | |
|---|---|
| Total authorized SES positions | 730 |
| Career executives eligible for awards according to OPM's eligibility criteria | 507 |
| Career executives rated | 472 |
| Number of performance awards | 104 |
| Percentage of performance award amounts: | |
| at 20 percent of salary | 4.8% |
| from 17 to 20 percent of salary | 9.6% |
| from 12 to 20 percent of salary | 24.0% |
| less than 12 percent of salary | 76.0% |
| Amount of awards: | |
| Ranks (23) | $240,000 |
| Performance awards | $552,155 |
| Number of PRB members receiving awards (5 of 5): | |
| Distinguished Rank | 1 |
| Meritorious Rank | 2 |
| Performance awards | 2 |

## Awards by ES Level

| ES level | Number of career executives | Percentage of agency SES population | Number and percentage receiving performance awards | | Number and percentage receiving rank awards | | Percentage receiving performance or rank awards |
|---|---|---|---|---|---|---|---|
| | | | Number | Percent | Number | Percent | |
| ES-6 | 10 | 2 | 5 | 50 | 3 | 30 | 80 |
| 5 | 68 | 13 | 28 | 41 | 10 | 15 | 56 |
| 4 | 282 | 56 | 56 | 20 | 7 | 3 | 22 |
| 3 | 41 | 8 | 9 | 22 | 1 | 2 | 24 |
| 2 | 26 | 5 | 3 | 12 | 1 | 4 | 16 |
| 1 | 80 | 16 | 3 | 4 | 1 | 1 | 5 |
| | 507 | 100.0 | 104 | 20.5 | 23 | | |

## DEPARTMENT OF AGRICULTURE

Agriculture paid performance awards in January 1981 to 65, or 20.9 percent of its 311 career senior executives.

### PERFORMANCE APPRAISAL PROCEDURES

Agriculture had one SES performance appraisal and awards system administered by its Office of Personnel. Heads of agencies within Agriculture had responsibility for the development and use of performance requirements and critical elements. The Office of Personnel provided staff assistance to agencies and insured compliance with Agriculture policy.

Agriculture's first performance appraisal rating period was from October 1, 1979, to October 1, 1980. Performance requirements and critical elements were established by the supervising official in consultation with the senior executive. Agriculture defined a critical element as any requirement of the job in which inadequate performance can be the basis for removal from the position. Agriculture's system did not require a review of executives' performance plans, but during the appraisal period the executives' performance plans (elements and standards) were reviewed for consistency, appropriateness, and compliance with guidelines by the Office of Personnel's Executive Resources, Performance Appraisal, and Merit Pay staff. Agriculture policy now requires the PRBs to review the executives' performance plans during the first quarter of the appraisal cycle.

At the end of the appraisal period, the supervisor prepared a performance appraisal and made an initial summary rating. Summary rating levels were "unsatisfactory," "minimally satisfactory," and three "fully successful" levels. The supervisor also prepared a one-page narrative statement that addressed four difficulty/risk factors affecting each position. The four difficulty/risk factors were (1) integration of internal and external program/policy issues, (2) organizational representation and liaison, (3) direction and guidance of programs, projects, or policy development, and (4) resource acquisition and administration.

The executive was not required to respond to the performance appraisal but had to respond to the narrative statement of the difficulty/risk factors.

The performance appraisals received a higher level review and then were sent to the Office of Personnel for distribution to the PRBs.

PRB COMPOSITION

The Secretary established a Secretary's PRB and eight general PRBs based on program areas. All PRBs were made up of a minimum of eight voting members and a representative from Agriculture's Office of Personnel. Each PRB included members from related program areas in other Agriculture agencies; the Secretary's PRB and one other PRB included a member from another Federal agency. Members were selected on the basis of their position and personal qualifications. SES level was not considered in the selection.

Agriculture's procedures specified that no member of a PRB may recommend a final scale and/or adjective rating for his or her position nor recommend a position coefficient, award, or any other action with respect to his or her position. To enhance the objectivity, the PRBs were set up in such a way that only the Secretary's PRB included members whose ratings were reviewed by that PRB. Sixteen of the 67 PRB members received performance awards. Of these 16, only 3 served on the same PRB which granted the award. The PRB members whose ratings were reviewed were excused from the meeting while their performance was being discussed. Ten of the 67 PRB members received rank awards.

The PRBs were responsible for reviewing narrative summaries of performance, considering the comments of the reviewing official, and recommending the final scale and rating for the performance of senior executives. PRBs also assigned position coefficients and made recommendations to the Secretary concerning retention, awards, or removal of individual senior executives.

PERFORMANCE AWARD PROCEDURES

Several weeks before the PRB meeting, each PRB member was provided a package which included the initial performance appraisals, elements and standards, accomplishments for each element, and the narrative statements of the difficulty/risk factors for nonprobationary SES executives. Agriculture's SES system guidelines state that no performance award will be paid to any career appointee serving a probationary period. Each member reviewed the appraisals and arrived at a rating by comparing the results accomplished to the established performance requirements and critical elements. The member also reviewed and analyzed the four difficulty/risk factors and assigned a preliminary "position coefficient" to the position.

The position coefficient was determined by comparing each position to the others reviewed and identifying those they considered the most risky/difficult and the least risky/difficult. The relative standing of positions was reflected by awarding a score of 1 to 5. A score of one represented a position with relatively high probability of success (low risk/difficulty)

and five represented a relatively low probability of success (high risk/ difficulty). To insure a similar distribution for each PRB, the total position coefficient points a PRB could award was limited to three times the number of positions reviewed. The result was each PRB had an average position coefficient of three.

Agriculture adopted the position coefficient as a method to address a complex award problem. The problem occured because the performance appraisal had no required distribution or limitation on how many people could earn a particular rating level. However, the number of awards could not exceed a given percentage of eligible SES executives.

The program PRBs made their reviews in early December 1980. The ratings each PRB member had assigned to an executive's performance were compiled, and the average was assigned as the summary performance rating. The PRB then discussed the preliminary position coefficient assessments and arrived at a consensus position coefficient.

These two factors--summary performance rating and position coefficient--determined the placement into the award matrix. Award recommendations were then made on the basis of an executive's hierarchical position within the matrix.

Each PRB was allocated a number of performance award recommendations it could make. The allocation was based on 20 percent of the career executives in each PRB's respective program area. While individual PRBs determined which of those executives under consideration would receive awards, the Secretary's PRB determined the award amount.

The recommendations were sent to the Secretary's PRB which monitors the program PRBs' recommendations. The Secretary's PRB met on December 18, 1980, and the ratings and recommendations for 65 performance awards were forwarded to the Secretary for concurrence. Although the number of recommendations exceeded the 20-percent limit suggested by OPM guidelines, the OPM representative who served as a member of the Secretary's PRB viewed it as close enough to OPM's guidelines to be in compliance.

## Summary Statistics for Agriculture

| | |
|---|---|
| Total authorized SES positions | 393 |
| Career executives eligible for awards according to OPM's eligibility criteria | 311 |
| Career executives rated | 246 |
| Number of performance awards | 65 |
| Percentage of performance award amounts: | |
| at 20 percent of salary | 0% |
| from 17 to 20 percent of salary | 9% |
| from 12 to 20 percent of salary | 25% |
| less than 12 percent of salary | 75% |
| Amount of awards: | |
| Ranks (14) | $160,000 |
| Performance awards | $326,227 |
| Number of PRB members receiving awards (26 of 67): | |
| Distinguished Rank | 2 |
| Meritorious Rank | 8 |
| Performance awards | 16 |

## Awards by ES Level

| ES level | Number of career executives | Percentage of agency SES population | Number and percentage receiving performance awards | | Number and percentage receiving rank awards | | Percentage receiving performance or rank awards |
|---|---|---|---|---|---|---|---|
| | | | Number | Percent | Number | Percent | |
| ES-6 | 22 | 7 | 6 | 27 | 7 | 32 | 59 |
| 5 | 55 | 18 | 22 | 40 | 5 | 9 | 49 |
| 4 | 148 | 48 | 28 | 19 | 2 | 1 | 20 |
| 3 | 30 | 10 | 5 | 17 | 0 | 0 | 17 |
| 2 | 16 | 5 | 1 | 6 | 0 | 0 | 6 |
| 1 | 40 | 13 | 3 | 8 | 0 | 0 | 8 |
| | 311 | a/101.0 | 65 | 20.9 | 14 | | |

a/Does not total 100 percent due to rounding.

## U.S. INTERNATIONAL TRADE COMMISSION

ITC paid performance awards in January 1981 to two (40%) of its five career senior executives. (The legality of this number of awards is currently with GAO's Office of General Counsel for consideration.)

### PERFORMANCE APPRAISAL PROCEDURES

ITC defined "critical element" as any component of the job which is sufficiently important to the overall success in the job in terms of time spent, consequence of error, or other factors affecting outcomes, that substandard performance in that component of the job results in unacceptable (overall) job performance." ITC considered all elements as critical.

ITC's first performance appraisal period was from July 1979 through September 1980. At the beginning of the appraisal period, critical elements and performance standards were established by the supervisor for each senior executive in consultation with the executive. The critical elements and performance standards were then reviewed by the Executive Resources Board. This Board submitted its recommendations on the elements and standards to the Chairman, ITC, who approved them on April 4, 1980.

At the end of the appraisal period, the supervisor prepared the performance appraisal on the basis of these critical elements and standards and assigned a summary rating of the overall level of the executive's performance. Summary rating levels were "unsatisfactory," "minimally satisfactory," "fully successful," "fully successful-above average," and fully successful-outstanding." The supervisor then discussed the appraisal with the executive. Each executive was given the opportunity to prepare written comments, and each senior executive who did not directly report to the Chairman had the option of requesting a higher level review.

The supervisor then completed the recommendations section of the appraisal and submitted all the documents to the PRB.

### PRB COMPOSITION

The PRB was composed of the Vice Chairman; ITC, who served as the PRB Chairman; two Commissioners; and all the SES executives. The PRB sat in ad hoc groups designated by the Chairman. Each ad hoc group was composed of one Commissioner and two SES career executives. The ad hoc group arrangement was used so that no SES executives sat in a group that reviewed either their performance or a subordinate's performance.

APPENDIX V

PERFORMANCE AWARD PROCEDURES

In November 1980, the PRB ad hoc groups reviewed and evaluated the appraisal and rating of each senior executive. The PRB considered the appraisal and rating made by the supervisor of each executive, responses made by the executive, and higher level review comments in making its recommendations to the Chairman.

The Chairman, after considering PRB's recommendations, made the final decision on the appraisal and rating of each senior executive and approved the performance awards.

APPENDIX V

## Summary Statistics for ITC

| | |
|---|---|
| Total authorized SES positions | 6 |
| Career executives eligible for awards according to OPM's eligibility criteria | 5 |
| Career executives rated | 5 |
| Number of performance awards | 2 |
| Amount of awards: | |
| Ranks (0) | $ 0 |
| Performance awards | $10,000 |

Number of PRB members receiving awards (2 of 5):

| | |
|---|---|
| Distinguished Rank | 0 |
| Meritorious Rank | 0 |
| Performance awards | 2 |

## Awards by ES Level

| ES level | Number of career executives | Percentage of agency SES population | Number and percentage receiving performance awards | | Number and percentage receiving rank awards | | Percentage receiving performance or rank awards |
|---|---|---|---|---|---|---|---|
| | | | Number | Percent | Number | Percent | |
| ES-6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 | 1 | 20 | 1 | 100 | 0 | 0 | 100 |
| 4 | 4 | 80 | 1 | 25 | 0 | 0 | 25 |
| 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 5 | 100.0 | 2 | 40 | 0 | | |

## DEPARTMENT OF STATE

State paid performance awards in October 1980 to eight executives, or 21.6 percent of its 37 career executives.

### PERFORMANCE APPRAISAL PROCEDURES

State drew on elements of the existing Foreign Service Officer's performance evaluation system and the Civil Service rating system to establish the SES performance evaluation plan. OPM approved State's SES plan in August 1979.

Work requirements and performance standards for each SES member were established and submitted to the PRB for approval at the beginning of the rating cycle. State defined work requirements as "the continuing responsibilities and special objectives which the SES members should carry out and achieve during the rating period." A performance standard was defined as "the measure of how, how much, and when work requirements are met."

The first SES performance appraisals, organized around the previously established work requirements and performance standards, were completed at the end of the performance period and overall summary ratings were prepared by each executive's immediate supervisor. The five possible summary ratings were "unsatisfactory," "minimally satisfactory," "fully successful," "excellent," "or outstanding."

In addition, the supervisor made recommendations to the PRB on whether a performance award was merited, and, if so, in what amount. The supervisor's recommendation for a performance award was based on the degree to which the executive's performance surpassed the standards established during the most recent rating period. The recommendation was expressed as a percentage of the SES member's base salary and could be any amount up to 20 percent.

To be eligible for a performance award, an SES member had to meet the following criteria:

"(a) Have been a career appointee for 120 or more days at the end of the annual rating cycle and be in career SES status in the Department at the end of that cycle;

(b) Have established work requirements and performance standards, reviewed by a PRB panel, for a period beginning at least 120 days before the end of the annual rating cycle; and

(c) Have been rated at least "Fully Successfully" by the executive supervisor or * * * by the PRB panel."

All 37 SES members were eligible for performance awards.

PERFORMANCE REVIEW BOARD COMPOSITION

The PRB was divided into two panels of five members each because State felt that it had two separate competition groups within its SES--the SES executives at large and the attorneys in the Office of the Legal Adviser.

The two panels were staffed from within and outside the panel competition group. Each panel included one member from the other competition group and one member from outside the agency. Also, each panel had a chairperson designated by the Executive Resources Board. The selection was made on the basis of the executive's experience and reputation for impartiality and good judgment. Of the eight State Department PRB members, one received a rank award and two received performance awards.

PERFORMANCE AWARD PROCEDURES

The panel members reviewed the performance appraisals of all SES executives. The performance appraisals were secured in a separate room for 1 week before the PRB meeting. Each PRB member reviewed the performance appraisals at his convenience. They evaluated the performance described against the following criteria:

"(a) The degree to which the following Government-wide goals are met:

"(i) Improvements in efficiency, productivity, and quality of work or service, including any significant reduction in paperwork;

"(ii) Cost efficiency;

"(iii) Timeliness of performance;

"(iv) Other indications of the effectiveness, productivity, and performance quality of the employees for whom the senior executive is responsible; and

"(v) Meeting affirmative action goals and achievement of equal opportunity requirements.

"(b) The degree of difficulty of the work.

"(c) The degree to which performance meets or exceeds work requirements and performance standards for the last rating period.

"(d) The relative value of the work to the Department's mission."

Each panel then met as a group and reviewed and approved the overall summary rating given by the supervisor. Each panel member then selected the SES executives he/she felt should be considered for an award. The panel Chairman consolidated the names into one list, and a "forced distribution voting" system was used to rank the executives being considered for awards. This system required that each executive be rated from 1 to 10 and that only 10 percent of the total executives being considered get a 10, only 10 percent can get a 9, etc.

In cases where a panel member was being considered for an award, the member ranked all the other executives but not himself/herself. This procedure was used to prevent the eligible panel members from having any impact on their own standing. Panel members also disqualified themselves from voting on subordinates.

Each panel complied with Executive Resources Board guidance which authorized the PRB to pay a maximum of eight performance awards. Each panel could recommend one award of up to 20 percent of base salary and three other bonuses, each of which could not exceed 12 percent of base salary. Both panels recommended performance awards for the maximum number of recipients permitted, and the panel for the Office of the Legal Adviser awarded the maximum percentages allowed.

The recommendations were submitted to the Director General and approved in October 1980.

## Summary Statistics for State

| | |
|---|---|
| Total authorized SES positions | 77 |
| Career executives eligible for awards according to OPM's eligibility criteria | 37 |
| Career executives rated | 37 |
| Number of performance awards | 8 |
| Amount of awards: | |
| Ranks (3) | $40,000 |
| Performance awards | $52,792 |

Number of PRB members receiving awards (3 of 8):

| | |
|---|---|
| Distinguished Rank | 0 |
| Meritorious Rank | 1 |
| Performance awards | 2 |

## Awards by ES Level

| ES level | Number of career executives | Percentage of agency SES population | Number and percentage receiving performance awards | | Number and percentage receiving rank awards | | Percentage receiving performance or rank awards |
|---|---|---|---|---|---|---|---|
| | | | Number | Percent | Number | Percent | |
| ES-6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 | 27 | 73 | 5 | 19 | 3 | 11 | 30 |
| 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 | 7 | 19 | 2 | 29 | 0 | 0 | 29 |
| 1 | 3 | 8 | 1 | 33 | 0 | 0 | 33 |
| | 37 | 100.0 | 8 | 21.6 | 3 | | |

## U.S. CUSTOMS SERVICE

Customs paid performance awards to 8, or 22.2 percent, of its 36 career executives.

### PERFORMANCE APPRAISAL PROCEDURES

Customs' senior executives had an active part in their SES performance appraisal and awards system. Each senior executive developed a performance plan defining those functions, programs, or projects which represented major responsibilities of his/her organization or position and for which the executive was held accountable. These functions, called key organizational responsibilities, are divided into three categories: organizational/staff, managerial, and equal opportunity. In defining the key organizational responsibilities, the senior executive and supervisory executive determine which ones represented the critical elements of the position. Critical elements were defined as those areas of responsibility where failure to meet the organizational goals or failure to successfully carry out managerial responsibilities would be grounds for removal. The supervisor then set goals/objectives for each key organizational responsibility which represented the individual and organizational performance standards against which the senior executive's performance would be measured. Each goal/objective was assigned a point value on the basis of how important completion of the goal was to the mission of the organization. The points represented successful accomplishment of the goal/objectives. Bonus points indicated the degree goals were exceeded or accomplished under unusual or adverse conditions. These points were awarded at the end of the appriasal period.

Key organizational responsibilities point values follow:

| Goals/objectives | Total points available | Bonus points |
|---|---|---|
| Organizational/staff | 50 | 10 |
| Managerial | a/15 | 5 |
| Equal opportunity | a/15 | 5 |
| Total points | 80 | 20 |

a/Executives had to achieve at least 12 points on managerial and equal opportunity goals to be eligible for performance awards or increases in base salary.

Once goals/objectives were set, the senior executive and supervisory executive met to discuss the performance plan. Both parties signed and dated the document which then became the executive's performance plan for the appraisal period.

At the end of the appraisal period, the senior executive rated his/her performance in relation to the established goals and key organizational responsibilities. The executive and his supervisor then met to discuss the rating and review supporting documentation. The supervisor concurred in or adjusted the rating which was then signed by the senior executive. After the senior executive signed the rating, the supervisory executive completed the section on the appraisal document recommending or not recommending an award.

Customs' performance appraisal procedures gave the senior executive the option of an independent review of his/her performance appraisal. However, no one sought this additional review.

According to Customs officials, the Deputy Commissioner reviewed and added comments on many of the performance appraisals before PRBs reviewed them.

PRB COMPOSITION

Customs operated with two PRBs. One PRB (PRB-1) evaluated the performance appraisals of the Assistant and Regional Commissioners and the other (PRB-2) evaluated the SES executives who reported to the Assistant and Regional Commissioners. PRB-1 consisted of three members: the Assistant Commissioner for Management Integrity and two executives from Treasury. PRB-2 consisted of senior executives within the Customs Service who would not be evaluating their peers or direct subordinates. The basic task of the PRBs was to evaluate the performance appraisals and make recommendations to the Commissioner for performance award recipients.

PERFORMANCE AWARD PROCEDURES

Customs' directives instructed the PRBs to consider a number of factors in their review process. Among them were quality of individual appraisals and ratings, and equity and consistency of various ratings from the same supervisor. When considering recommendations for performance awards, PRBs were directed to also consider

--the use of innovative approaches in accomplishing objectives when faced with hiring freezes and budget cuts,

--the difficulty of goals and objectives that had been set,

--accomplishments above goals, and

--outstanding individual performance.

The PRBs had the authority to recommend adjustments to the numerical rating and often did. These recommended changes were considered minor by Customs officials who told us that the changes did not cause a change in performance level nor did they cause a change in the individuals recommended for awards. In the absence of the Commissioner, the Deputy Commissioner received the PRB's recommendations for awards and made the final decisions.

APPENDIX VII

## Summary Statistics for Customs

| | |
|---|---|
| Total authorized SES positions | 41 |
| Career executives eligible for awards according to OPM's eligibility criteria | 36 |
| Career executives rated | 36 |
| Number of performance awards | 8 |
| Amount of awards: | |
| Ranks (2) | $30,000 |
| Performance awards | $41,000 |

Number of PRB members receiving awards (6 of 8):

| | |
|---|---|
| Distinguished Rank | 1 |
| Meritorious Rank | 1 |
| Performance awards | 4 |

## Awards by ES Level

| ES level | Number of career executives | Percentage of agency SES population | Number and percentage receiving performance awards | | Number and percentage receiving rank awards | | Percentage receiving performance or rank awards |
|---|---|---|---|---|---|---|---|
| | | | Number | Percent | Number | Percent | |
| ES-6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 | 1 | 3 | 1 | 100 | 0 | 0 | 100 |
| 4 | 23 | 64 | 5 | 22 | 2 | 9 | 30 |
| 3 | 4 | 11 | 0 | 0 | 0 | 0 | 0 |
| 2 | 4 | 11 | 2 | 50 | 0 | 0 | 50 |
| 1 | 4 | 11 | 0 | 0 | 0 | 0 | 0 |
| | 36 | 100.0 | 8 | 22.2 | 2 | | |

## DEPARTMENT OF THE NAVY

The Navy paid performance awards on September 30, 1980, to 70 executives, or 20.1 percent of its 348 career executives.

### PERFORMANCE APPRAISAL PROCEDURES

The Navy established its performance appraisal system in September 1979, following its approval by OPM. The Navy's first performance appraisal rating period was from October 1, 1979, to June 30, 1980. Beginning in July 1980, rating periods were to start on July 1st and end on June 30th of the following year. The objective-setting and performance appraisal process followed an annual cycle which started with the issuance of guidance by the Secretary of the Navy. This guidance served as a framework for the objective-setting process by directing the energies of key managers toward goals of broad importance to the Navy. Such guidance might include meeting cost/schedule milestones for a key weapons system, achieving certain equal employment opportunity goals, implementing certain management improvement strategies, and similar departmentwide concerns.

Each management level was allowed to expand on the Secretary's guidance to increase its specificity to the organization under consideration. The Secretary's guidance was also used by the Naval Evaluation Group to identify those organizations deserving special recognition.

The second step in the process was the setting of objectives, by executives and their supervisors. The executive and his/her supervisor jointly discussed the applicability of the guidance to the SES member's position and work plans, the critical job requirements (elements) and projects, possible specific objectives and measurements of progress, as well as past performance and self-development.

Once the SES member and supervisor had developed tentative objectives, they identified management standards or criteria against which performance in achieving these objectives could be measured. These criteria, separate for each objective, reflected such factors as

--improvements in efficiency, productivity, and quality of work or service, including any significant reduction in paperwork;

--cost efficiency;

--timeliness of performance; and

--other indications of effectiveness and quality.

In addition to the management standards, the executive and his/her supervisor set two "target performance levels." The first performance level was an "on target" specification which would constitute fully satisfactory performance; the second was an "over target" specification of performance that exceeds standard expectations.

After the objectives, standards, and target levels were set by the SES member and his/her supervisor, the next level of management reviewed objectives to insure they were consistent with overall organizational objectives. With the exception of the Office of Naval Research, there was no central review of objectives by the PRB or the Executive Personnel section before or during the rating period.

During the appraisal period, quarterly reviews by the executive and his/her supervisor were required so that they could assess progress and performance toward achieving the executives' objectives at those points. Special reviews were held as conditions arose that necessitated a change in one or more objectives. If one or more objectives were changed, added, or deleted during this process, approval by the next level of management was required.

At the conclusion of the appraisal period, the executive prepared a self-appraisal of his/her own performance and forwarded a copy to the supervisor who prepared a performance appraisal, with a rating for each objective. Following the rating of each individual objective, the supervisor assigned an overall performance rating at one of the following six levels.

Fully successful

--Substantially exceeded all objectives.

--Most significant objectives--substantially above target.

(Those relating to the critical elements of the position.)

--All signficiant objectives--above target.

--All significant objectives--on target.

Minimally satisfactory

--Some objectives--below target.

Unsatisfactory

--Most objectives--below target.

After the supervisor completed the ratings, a meeting was held with the SES member. Both the supervisor and the SES member signed the summary rating form and added any written comments. Following this, the appraisal form was sent to the next level of management for concurrence and then to the PRB for its consideration and review.

PRB COMPOSITION

The Navy had seven PRBs of five or more members each that covered seven organizational areas within the Navy. An eighth PRB of seven members had responsibility for reviewing the performance appraisals of all career executives serving on the other seven PRBs.

The senior commander in each PRB area, under authority delegated to him by the Secretary of the Navy, sponsored the PRB and appointed its members. The PRB which reviewed the appraisals for the Office of the Secretary and Marine Corps as well as the eighth PRB were appointed by the Under Secretary. PRB members were appointed for a 1- or a 2-year overlapping term and had to meet specific criteria before they could be appointed. To enhance their objectivity, no PRB members sat on boards which reviewed their own performance.

In addition to the eight PRBs established by the Navy, a Navy Executive Board (NEB) was used to assess the overall rating distribution within the Navy and to recommend performance awards to the Secretary. This board was composed of one representative from each PRB and three other persons from within the Navy. Its major function was to insure equity and consistency of ratings and appraisals on a departmentwide basis as well as to insure general adherence to the Secretary's guidance.

Of the 31 eligible PRB members, 14 received performance awards; 6 received rank awards.

PERFORMANCE AWARD PROCEDURES

The final phase of the performance appraisal process began with the review of the performance evaluation by the PRBs. The PRBs' function in the Navy was to review the performance appraisals to determine the reasonableness of the evaluations and the distribution of the ratings. They had the authority to request the supervisors or the next higher management level to furnish supplemental information and/or justification concerning appraisals when they detected problems or did not understand the rationale behind the rating. After all appraisals were reviewed, they were ranked by the PRB. In ranking the appraisals, the PRBs are to consider such factors as the importance of the

goals achieved to accomplish the mission, the extent to which the goals were exceeded, the complexity of the goals, and relative adherence to the Secretary of the Navy guidance.

After all appraisals were reviewed by individual PRB members, the PRB voted yes or no on whether to accept each appraisal. A simple majority of yes votes constituted acceptance of an appraisal. For any appraisal not accepted, the PRB was required to prepare a recommended revised rating for submission to the appointing authority, who in most cases was the Commander of the organization to which the SES member belonged. For those appraisals accepted, the PRB ranked them to determine who would be recommended for an award.

The PRB process for ranking executives was a four-step process that culminated in a ranked list of executives. In the final step in the appraisal ranking process, the PRBs submitted the appraisals of all SES members to the appointing authority (usually Heads of Commands) with the PRB's recommendations and accompanying justification. The appointing authorities then reviewed and approved the appraisals which then were returned to the PRBs to permit adjustments in the ranking process necessitated by any changed appraisals.

When the PRB finished its review, it reported its results to the sponsor (senior Commander in PRB area) who forwarded them to the NEB.

The NEB had two overall responsibilities:

--To assess the overall rating distribution within the Department.

--To recommend awards to the Secretary.

Using the ranking provided by the individual PRBs, the NEB recommended which SES members would receive performance awards, and by percentage of base pay, the size of each award. The NEB was required to preserve the rankings as determined by the PRBs; for example, the person ranked number one by a given PRB could not receive a smaller award than the person ranked number two by that same PRB.

The NEB used the following criteria in making decisions on performance awards:

--Importance of goals achieved to mission accomplishment.

--Extent to which goals were exceeded.

--Complexity of the goals.

--Adherence to management guidance.

--Functional areas or organization not a factor.

--Appraisals evaluated regardless of race, creed, color, sex, age, national origin, or nondisqualifying handicap.

Upon completion of the process, a list of SES members recommended for performance awards and the designated award percentages are forwarded to the Secretary of the Navy for final action.

## Summary Statistics for the Navy

| | |
|---|---|
| Total authorized SES positions | 442 |
| Career executives eligible for awards according to OPM's eligibility criteria | 348 |
| Career executives rated | 326 |
| Number of performance awards | 70 |
| Percentage of performance award amounts: | |
| at 20 percent of salary | 4.3% |
| from 17 to 20 percent of salary | 10.0% |
| from 12 to 20 percent of salary | 25.7% |
| less than 12 percent of salary | 74.3% |
| Amount of awards: | |
| Ranks (17) | $200,000.00 |
| Performance awards | $368,289.54 |

Number of PRB members receiving awards (20 of 31):

| | |
|---|---|
| Distinguished Rank | 2 |
| Meritorious Rank | 4 |
| Performance awards | 14 |

## Awards by ES level

| ES level | Number of career executives | Percentage of agency SES population | Number and percentage receiving performance awards | | Number and percentage receiving rank awards | | Percentage receiving performance or rank awards |
|---|---|---|---|---|---|---|---|
| | | | Number | Percent | Number | Percent | |
| ES-6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 | 1 | 1 | 0 | 0 | 1 | 100 | 100 |
| 4 | 293 | 90 | 63 | 21 | 15 | 5 | 27 |
| 3 | 14 | 4 | 4 | 29 | 1 | 7 | 36 |
| 2 | 14 | 4 | 2 | 14 | 0 | 0 | 14 |
| 1 | 4 | 1 | 1 | 25 | 0 | 0 | 25 |
| | 326 | 100 | 70 | 21.4 | 17 | | |

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

JUN 8 1981

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The President
The White House

Dear Mr. President:

As you are undoubtedly aware, the General Accounting Office (GAO) has long been concerned about the inadequate salary levels, irregular pay adjustments, and distorted pay interrelationships of top Federal officials. This is one of the most critical, but perhaps least understood and appreciated problems, facing the Government today.

Now is the time to begin facing up to executive pay compression and its related problems. The appropriation restriction on payment of the legal salaries of top Federal officials will expire on September 30, 1981. If the restriction is not reimposed, executive salaries will rise to their legal levels.

In a series of reports, letters, and testimony since 1974, we have highlighted the adverse effects of denying or limiting pay increases to Federal executives and have advocated an executive pay system that provides competitive salary levels, meaningful pay distinctions to recognize differences in responsibilities and performance, and incentives to help encourage valuable, experienced executives to stay in the Government. Our latest report on this critical issue, "Federal Executive Pay Compression Worsens" (FPCD-80-72, July 31, 1980), recommended that the Congress allow annual pay adjustments, discontinue the practice of linking congressional and Executive Level II salaries, and allow the bonus and rank provisions of the Civil Service Reform Act to take effect for Senior Executive Service (SES) members.

But our recommendations were not acted upon, and a bad situation has worsened. The Congress, in 1980, reduced the maximum number of SES positions that could receive performance awards (bonuses) from 50 percent, as authorized by the Civil Service Reform Act, to 25 percent. Subsequently, the Office of Personnel Management further limited bonuses to 20 percent of career executives and also limited the size of bonuses that could be awarded.

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Federal executives were due a 9.1 percent pay increase in October 1980, but appropriation act language prohibited the payment of the increase in the same manner as the 7.02 percent raise due in October 1979 was denied. In its December 1980 report, the Commission on Executive, Legislative, and Judicial Salaries recommended substantial increases in executive pay levels. The President, in January 1981, recommended an immediate 16.8 percent increase in executives' salaries, but the Congress rejected the President's proposal.

If allowed to continue, pay compression and its negative, contagious effects threaten to undermine the SES and other important reforms the Congress mandated in the Reform Act. More important, the effective management and operation of Government programs may be at stake.

Because of the pay restrictions, about 34,000 top Federal officials at seven distinct levels of responsibility now receive the same salary--$50,112.50. Continuing the $50,112.50 pay cap into October 1981 will extend the pay compression to an eighth level of responsibility--the top steps of GS-14 and equivalent positions in other pay systems. From an individual Federal agency's standpoint, pay compression means that all senior executives, managers, and supervisors at seven (soon eight) levels of responsibility from the agency head or Assistant Secretary level down to the first-line supervisor or senior program technician receive the same salary. This situation is absurd and creates a multitude of morale, motivational, and other problems.

Other adverse effects of pay compression, which we highlighted in our July 31, 1980, report, are becoming increasingly critical; some are reaching crisis proportions. For example:

--The purchasing power of top officials' pay is being further eroded by inflation. For example, Level II and equivalent executives have lost over 40 percent of their purchasing power since 1969. Other executives and top career officials continue to suffer similar losses.

--The Administration and employing Federal agencies are finding it increasingly difficult to attract experienced and talented executives from the private sector, State and local governments, and nonprofit organizations because most of them would have to accept a substantial reduction in pay to join the Federal ranks.

--The morale of Federal executives and senior managers is very low. Surveys of executives' attitudes indicate clearly a growing, widespread dissatisfaction; frustration; and bitterness over continuing pay ceilings; irregular pay

adjustments; and limited performance awards. Many executives perceive the pay freeze and congressional/administration action to limit the number and size of SES bonuses as a breach of faith; many believe they were misled because they were induced into joining the SES by the prospects of pay levels commensurate with their level of responsibility and awards for outstanding performance.

--The turnover rate among executives has increased dramatically. Many have resigned citing as factors the continuing pay ceiling, lack of regular pay adjustments, and higher paying non-Federal jobs. Experienced top officials are retiring at alarming rates. The retirement rate for executives at the pay ceiling has increased from 17.6 percent in March 1978 to 67 percent for the 12-month period ended August 31, 1980. The rate of retirement during that period among career executives aged 55 to 59 was an astonishing 95 percent.

Additionally, pay compression places pressure on SES rank and performance award programs and creates incentives and impetus for agencies to use them as a secondary compensation system to recognize various factors, such as job difficulty, degree of responsibility, and salary and service history, which customarily are, and should be, reflected in basic salary levels. There is evidence strongly suggesting that SES rank and performance awards have been used to provide additional compensation to higher level SES members instead of their intended purposes of rewarding outstanding accomplishments and performance and encouraging excellence. We do not condone this practice, but it is understandable and predictable under the circumstances.

Although there are six SES pay levels which recognize that some SES jobs are more responsible, more difficult, and/or require a greater degree of knowledge, skills, and abilities than others, virtually all SES members now receive the same salary. As long as this continues, ranks and bonuses will be used to compensate for deficiencies in the executive pay-setting and adjustment processes. As we have emphasized earlier, the proper way to minimize this pressure on the SES rank and performance awards program and permit it to operate as intended is to allow executive pay increases which will result in appropriate differentials among SES pay levels. If the Congress continues to be concerned about the nature of the awards and about awards received by members of performance review boards who oversee the awards process, it may wish to consider tightening the award eligiblity criteria, requiring that awards be based solely on performance, and/or requiring that performance review boards be composed of members from outside the agency.

APPENDIX IX



Several adverse effects of executive pay compression--early retirements of valuable, experienced career executives and low morale and motivation levels among remaining executives and senior managers--have serious implications for the continued viability of the SES in particular and the civil service in general.

As mentioned earlier, executives are retiring early at alarmingly high rates. Consequently, the Government is losing its most valuable, experienced career executives at a time when our country can least afford it. With runaway inflation, declining productivity, and mounting pressure to reduce the level of Federal spending and improve the economy, efficiency, and effectiveness of essential public goods and services, the taxpayers need and deserve the best available managerial talent. Congressional and executive mandates must be properly executed by Federal agencies if their intended results are to be achieved. Executives and senior managers comprise only a small segment of the Federal work force, but this group is one of the most vital factors for helping insure the success of Government programs.

The exodus of valuable and able executives is costly. It results in lost productivity and continuity while the new executive learns how the system works. In today's environment when the Government is being asked to do more with less, experienced executives with the knowledge base are in a much better position than new, inexperienced executives to offer and properly execute workable solutions to the ever increasing demand for better services and increased productivity.

In terms of direct outlays, encouraging competent, experienced executives to remain in the Federal work force, instead of retiring, could have the immediate effect of avoiding further increases in Federal expenditures. Because executives who retire are generally replaced, total Government outlays increase since not only must the replacement's salary be paid, but new training and development costs may be incurred, and a retirement annuity is payable to the former executive. This can best be illustrated by the following examples.

--If an executive aged 55 with 30 years of service whose salary has been at the $50,112 ceiling for 3 years retired today, that person would, over the next 3 years, receive pension payments totaling $92,828. During this same 3-year period, his/her replacement, assuming no increase in the executive pay ceiling, would receive $150,338 in salary payments. Thus, total salary and pension payments for that period would be $243,166.

--In comparison, if the experienced executive received a 16.8 percent salary increase today and continued to work for 3 more years before retiring, total outlays for the

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3-year period would be $175,593, or $67,573 less than if the executive retired now. Further, even if in addition to an immediate 16.8 percent salary increase, the experienced executive received subsequent annual pab adjustments of 4.8 percent, 7 percent, and 7 percent over the 3-year period, total outlays would still be $48,887 less than if the executive retired now.

Thus, raising executive salaries to encourage experienced executives to continue working, instead of retiring, could not only prevent the loss of valuable managerial talent but would also be cost effective.

To help enable the Government to meet successfully the enormous challenges it faces in these difficult times, allow the SES to operate as envisioned, and help insure the eventual success of civil service reform, we strongly urge the Congress to discontinue the appropriation restriction on payment of the legal salaries of top officials in the executive and legislative branches. The 16.8 percent increase that would result represents the aggregate pay increases which General Schedule employees received and, by law, were due top officials in fiscal years 1980 (7.02 percent) and 1981 (9.1 percent). The Supreme Court recently ruled that those appropriation restrictions did not apply to the Judiciary; Federal judges are already receiving the 16.8 percent in question.

Allowing top officials to begin receiving the pay adjustments which were due them in October 1979 and October 1980 would relieve much of the executive pay compression. It would allow five of the six established SES pay rates to become fully operative and would result in pay distinctions among all six SES pay levels. However, pay compression within the General Schedule and equivalent pay schedules would continue; career executives at GS-18, GS-17, and the top five steps of GS-16, and their equivalents covered by other schedules, would receive the same salary.

We recognize that the Congress is reluctant to allow an increase in its salaries. The consequence of that action has been that other top Federal officials also have been denied their required increases, whether or not the same concerns applied equally to them. If, because of these concerns, the Congress wishes to continue withholding the required 16.8 percent increase from itself, we suggest that funds be appropriated to permit the required increases to take effect at least in the executive and judicial branches and for nonelected positions in the legislative branch.

Equally important as the immediate increase, however, are the increases that will be required, by law, in future years. Therefore, we urge the Congress to allow whatever increase is granted General Schedule employees in October 1981 and, in subsequent years, to be paid also to top Federal officials, as

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the Executive Salary Cost-of-Living Adjustment Act (Public Law 94-82) provides. By following this legislated principle, the Congress can prevent the salary muddle that has plagued the Government for over a decade from becoming worse every year.

Hopefully, this letter will assist in addressing executive pay compression and related problems. We are also sending this letter today to the President of the Senate; the Speaker of the House of Representatives; the Director, Office of Management and Budget; the Director, Office of Personnel Management; and to other key House and Senate committees having an interest in this critical matter.

Respectfully yours,

/s/ Acting Comptroller General

Acting Comptroller General
of the United States

(966027)